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Statement of the American Farm Bureau Federation

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Summary of Comments
American Farm Bureau Federation
Before the Surface Transportation Board

In re. Ex Parte 582
Public Views on Major Rail Consolidations

March 10, 2000

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As the national voice of agriculture, AFBF's mission is to work cooperatively with the member state Farm Bureaus to promote the image, political influence, quality of life and profitability of the nation's farm and ranch families.

FARM BUREAU represents more than 4,800,000 member families in 50 states and Puerto Rico with organizations in approximately 2,800 counties.

FARM BUREAU is an independent, non-governmental, voluntary organization of families united for the purpose of analyzing their problems and formulating action to achieve educational improvement, economic opportunity and social advancement and, thereby, to promote the national well-being.

FARM BUREAU is local, county, state, national and international in its scope and influence and works with both major political parties to achieve the policy objectives outlined by its members.

FARM BUREAU is people in action. Its activities are based on policies decided by voting delegates at the county, state and national levels. The American Farm Bureau Federation policies are decided each year by voting delegates at an annual meeting in January.

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The AFBF Board of Directors approved priority issues for 2000 at its meeting in January. Among these: "Promote public policies that support a low-cost national transportation system to ensure international competitiveness of U.S. farm production." A key aspect of accomplishing this broad goal is to seek public policies that create the largest possible number of competitive transportation options for agricultural shippers. The Staggers Act of 1980 brought about partial deregulation of the railroad industry and encouraged rail industry consolidation on a massive scale.

AFBF policy, approved by the delegates to the 81st annual AFBF Convention in January 2000 says, in part, "We oppose parallel mergers of rail systems and the granting of railroad abandonments which tend to lessen potential transportation competition." Recent announcements of proposed mergers have caused concern among agricultural shippers because the promise of improved service and better rates from prior mergers have largely gone unrealized. Any further mergers among the remaining Class I railroads in North America will almost certainly lead to future mergers, leading ultimately to a two- or three-railroad industry.

Because agricultural shippers tend to be small commercial concerns or farmer-owned cooperatives, they tend to move smaller volumes and are therefore less able to demand better service and rates from railroad companies. Thus, any merger that would have the effect of further concentrating the market power of railroad companies will be of concern to farmers and agricultural shippers. Also, given the limited number of players left for possible future mergers, it is likely that any future merger will have international trade consequences, facilitating movement of commodities like grain and timber produced in Canada into United States markets.

The Surface Transportation Board has informally requested that any respondent to the above-titled board action address whether past mergers have been beneficial, and whether future mergers will also be beneficial. The answer to these questions is not a simple negative or positive. Rather, the answer is conditional on particular circumstances in particular places. Clearly, some of the players in the railroad marketplace before the Staggers Act were not strong players able to provide adequate service. Service and rates improved to a certain extent in the years after the passage of Staggers.

However, the most recent round of mergers (Burlington Northern Santa Fe; Union Pacific-Southern Pacific; the distribution of the assets of the former Conrail among

Norfolk Southern and CSX Transportation) has left vast areas of the United States captive to a single rail service provider. For many shippers, there is no competitive rail service provider, nor is there any feasible alternative mode of transportation. Current federal policies that restrict competition in coastwise waterborne transportation (the Jones Act), that limit the size and weight of over-the-highway trucks, and fail to make needed upgrades to our inland water system, particularly on the Upper Mississippi River and the Illinois River prevent other modes from providing practical transportation alternatives to counter the monopolistic market power of railroad companies in certain areas of the country. We are concerned that any future mergers will only exacerbate this problem.

The answer must also be conditioned on whether federal railroad policy will change in response to changed conditions. AFBF has supported changes in federal policy that would permit a shipper adversely affected by a bottleneck may seek a rate to transport freight to the nearest point of interchange with another railroad. Likewise, AFBF has supported reforms that would allow a shipper to require that an incumbent railroad switch freight to any competing railroad at terminal areas in order the prevent the incumbent railroad from restricting shipper access to a competitor. In a two-or three-railroad environment, such federal policy may not be sufficient to protect the interests of captive shippers.